No. 18180

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

FORMULABS, INCORPORATED, a corporation, CLARENCE SCHREUR and GORDON S. LACY, individuals doing business as PACIFIC RESEARCH LABORATORY, a co-partnership,

Appellants,

vs.

HARTLEY PEN COMPANY, a corporation, doing business as THE HARTLEY CO., and E. I. du PONT de NEMOURS & COMPANY, a corporation,

Appellees.

INTERVENORS' BRIEF IN REPLY TO ANSWERING BRIEF OF APPELLEE E. I. du PONT de NEMOURS & COMPANY

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TOPICAL INDEX

TABLE OF AUTHORITIES CITED

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INTERVENORS' BRIEF IN REPLY TO ANSWERING BRIEF OF APPELLEE E. I. du PONT de NEMOURS & COMPANY

INTRODUCTION

This brief is in reply to the Answering Brief of the appellee E. I. du Pont de Nemours & Company and the argument herein is arranged in parallelism with the argument of that appellee.

The parties and the various parts of the record are identified in the manner stated in Intervenors' Brief at pages 2 and 3.

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INTRODUCTION

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The parties and the various parts of the record are identified in the manner stated in Intervenors' Brief at pages 2 and 3.

SUMMARY OF ARGUMENT

I

INTERVENORS' REPLY TO THE APPELLEE'S CONTENTION:

"THE DISTRICT COURT DOES NOT HAVE SUBJECT MATTER JURISDICTION OVER THE SEPARATE AND INDEPENDENT CONTROVERSY FRAMED BY THE COMPLAINT IN INTERVENTION. ITS DISMISSAL BY THE DISTRICT COURT WAS, THEREFORE, A NECESSARY AND PROPER RESULT."

II

INTERVENORS' REPLY TO THE DU PONT CONTENTION:

"ASSUMING ARGUENDO THAT JURISDICTION OF THE DISTRICT COURT EXTENDS TO DETERMINATION OF THE SEPARATE AND INDEPENDENT CONTROVERSY FRAMED BY THE COMPLAINT IN INTERVENTION, THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN REFUSING TO ENJOIN DISCLOSURE BY HARTLEY.

"A. THE PRESENTATION OF THE TRUTH IS A PARAMOUNT CONSIDERATION TO PROTECTION OF A PROPRIETARY RIGHT."

INTERVENORS' REPLY TO DU PONT ARGUMENT II B:

"B. UNDER THE CONDITIONS OF SAFEGUARD INCORPORATED IN THE ORDER OF LIMITED DISCLOSURE, NO GENERAL PUBLICATION OF THE SECRETS WILL BE MADE AND NO IRREPARABLE INJURY DONE TO INTERVENORS."

ARGUMENT

INTERVENORS' REPLY TO THE APPELLEE'S CONTENTION:

"THE DISTRICT COURT DOES NOT HAVE SUBJECT MATTER JURISDICTION OVER THE SEPARATE AND INDEPENDENT CONTROVERSY FRAMED BY THE COMPLAINT IN INTERVENTION. ITS DISMISSAL BY THE DISTRICT COURT WAS, THEREFORE, A NECESSARY AND PROPER RESULT."

---

1. Du Pont states:

"By their complaint in intervention, intervenors sought to litigate in the federal forum their rights and the correlative duties of Hartley under a licensing agreement made between them and Hartley."

(du Pont Brief, page 7).

This is misleading.

Intervenors intervened to protect their property under FRCP 24(a)(3). That property was before the District Court by virtue of the fact it was in the possession of Hartley, one of the litigants.

The existence of the agreement and its continued validity are not denied by Hartley.

Intervenors intervened to protect their property. The license agreement is evidence which will be used in the assertion of their rights. It is incorrect to say that they intervened to litigate the relative rights between themselves and Hartley, but to the extent that is necessary it would be the duty of the District

Court to determine that issue just as though Intervenors were asserting rights to physical property in the possession of the Court as in Krippendorf v. Hyde, 110 U.S. 276.

2. Du Pont, after discussing Krippendorf v. Hyde, upon which Intervenors rely and which was recognized by this Court in the first Formulabs' appeal as being controlling law, see Formulabs, Inc. v. Hartley Pen Co., 275 F. 2d 52, certiorari denied, 363 U.S. 830, attempts to distinguish the present case and contends:

> "In the present case, by contrast, neither Hartley nor du Pont disputes intervenors' claimed proprietary rights or asserts any paramount interest (or in the case of du Pont, any interest at all) in the secret ballpen ink formulae."
>
> (du Pont Brief, page 10, lines 1-5).

It is true, here, as in Krippendorf v. Hyde, the ownership of the intervenors is acknowledged. In addition in this case the agreement, which is also acknowledged, upon its face at paragraph 2 spells out the obligations of Hartley to maintain the secrecy. It is not denied, nor can it be at this time. Paragraph 2 is as follows:

> "(2) The second party (Hartley) undertakes and agrees that it will not in any way or manner make known, divulge or communicate the secret of said formula to any person or persons whomsoever, and will take all reasonable precautions against the secret of said formula being

learned or acquired by an unauthorized person or persons."

(App. pp. 63-65).

The ownership of the property is admitted, the existence of the binding agreement is admitted, but it appears to be the du Pont position that the Court cannot consider any evidence which establishes or measures Intervenors' proprietary rights.

The right to intervene is obviously a hollow right if after intervening Intervenors are denied the right to assert their proprietary interest.

3. Du Pont makes the following erroneous statement:

"The district court has acquired control over the secrets, not through court process, but by virtue of a licensing agreement willingly made by intervenors prior to the occurrence of the events destined to be litigated between the principal adversaries, Hartley and du Pont."

(du Pont Brief, page 10, lines 5-10).

The fact is the District Court had jurisdiction of the secret by virtue of the fact the secret was in the possession of Hartley and Hartley was before the Court. It was Judge Harrison who said at the hearing on Monday, February 18, 1957, addressing himself to Mr. Falcone, attorney for Hartley:

"You are in this court with that formula."

(Tr. p. 273 in Appeal No. 16140).

The order of the District Court to disclose is an order to Hartley to breach its agreement, a clear-cut interference with the

obligations of a valid and binding contract between the parties, made without giving to Intervenors the opportunity to assert their rights of ownership. That such is the case is clearly evidenced by the statement by counsel for Hartley at the hearing before Judge Harrison on February 18, 1957:

> "MR. FALCONE: If you make such an order, your Honor, as we told you in conference in chambers, we will accede to it, but we are going contrary to our contract with our licensor."
>
> (Tr. p. 272, Appeal No. 16140).

4. Du Pont contends:

> "The owners of the secrets have not been in any way deprived of the use or possession of their property and are not threatened with such deprivation under the terms of the discovery order now before this court for review in Cause No. 17799."
>
> (du Pont Brief, p. 10, lines 10-14).

This has been answered by Intervenors in their main Brief at pages 27-30, which includes by reference Intervenors' Brief in Cause No. 17741, pages 48-52.

Du Pont makes the same general argument at pages 14, 15. Reference is respectfully directed to pages 17 to 19 of this Brief replying thereto.

The extent of the injury resulting from the disclosure is speculative and uncertain. There is no way to guarantee Intervenors

the protection to which they are entitled except to protect their secret.

Du Pont's position is: No harm will result from giving us the key to your treasureroom. We are not removing the treasure at this time.

Intervenors' position is: You have no right to the treasure at any time. Unless you plan to remove the treasure from the storeroom at some time, and are permitted to do so, there is no justifiable reason for giving you the key now.

A little larceny cannot be justified upon the ground it is little.

5. Du Pont makes a contention, which is interesting because of the confusion it evidences, and as follows:

> "Furthermore, if any threat to their (intervenors) property should hereafter arise, that threat would stem from the use of their property which intervenors themselves sanctioned in electing to license Hartley for royalty."
>
> (du Pont Brief, p. 10, lines 14-18; emphasis added).

This statement can only be explained by assuming du Pont lost sight entirely of the fact that the agreement (App. pp. 63, 64) licensing Hartley to use the secret expressly bound Hartley not to disclose.

Du Pont is in the position of contending that Intervenors sanctioned the doing of something which their agreement expressly prohibited.

6. Du Pont's confusion is further evidenced by its attempt to distinguish the present case from Krippendorf v. Hyde. It said:

> "There an innocent third person found himself deprived of the use and possession of his property as a result of court process issued in aid of an action between two parties, neither of whom bore any relation to him. Unlike intervenors, Krippendorf had not voluntarily surrendered any part of his bundle of rights in the property attached."
>
> (du Pont Brief, p. 10, lines 24-30).

It is clear on the record that so far as the issues of the main case between Hartley and du Pont are concerned Intervenors are strangers and have no interest. The attempt to distinguish between Krippendorf v. Hyde and the present case in this manner is obviously unsound.

As to the contention that Intervenors have surrendered part of their rights, and so Krippendorf v. Hyde does not apply, that does not stand the light of analysis either. The right which Intervenors assert is the right to protect their secret, the right to prevent others from learning the secret, a right expressly provided in the license agreement with Hartley. Whatever rights Intervenors may have surrendered to Hartley did not include the right they here seek to protect which right was denied Hartley expressly by its license agreement. The du Pont contention is clearly without merit.

7. Du Pont contends:

"Here there are no conflicting claims of ownership of the secrets and no question but that Hartley's claim against du Pont arises out of its use under license of those secrets."

(du Pont Brief, p. 11, lines 1-4).

Just how this aids the du Pont position is not clear.

Here is an admission by du Pont that Intervenors own the secret and that Hartley is a licensee thereunder.

It was Hartley who brought this suit and to say that it gained the right to breach its own license agreement by the expedient of bringing a lawsuit against a third party is to sanction an escape from a binding contractual obligation by a self-serving act.

This is a strange contention for du Pont to make.

8. Du Pont makes the contention:

"Here, of course, intervenors have been extended the opportunity to oppose as owners, together with Hartley, the efforts of du Pont to establish need for limited disclosure of the secrets in order properly to prepare its defense to the main action. That opportunity they have fully exercised as owners." (Emphasis added).

(du Pont Brief, p. 11, Second Paragraph, lines 1-6).

This is misleading in the extreme. The District Court only permitted Intervenors to join Hartley in a "me too" position opposing the du Pont effort to show "good cause" justifying disclosure of the trade secret. They did not intervene for that purpose.

At no time were Intervenors permitted to establish their rights "as owners", or to assert any rights of ownership. The District Court at all times asserted and ruled it would not hear Intervenors as to their rights as owners, and as the record shows, refused to give to Intervenors their day in court in that connection, or even to act upon the motions to dismiss their complaint, until ordered by this Court to do so.

It is the opportunity to assert their rights as owners that Intervenors sought at all times and now seek. For du Pont to say that Intervenors have been given the right to intervene "as owners" is most misleading. That right was never given to Intervenors.

In making this contention du Pont clearly did not have in mind the law which only gives to an "owner" of a trade secret the right to assert his rights against one to whom the secret has been disclosed in confidence or under a contract.

> "A valid patent protects its owner and his assignees and licensees against everyone infringing it, while a trade secret protects its owners only against those who have learned the secret under a contractual or confidential obligation to preserve the secrecy."

Vulcan Detinning Co. v. American Can Co. (1904),
67 N.J.Eq. 243, 58 Atl. 290;

Giblett v. Read (Hardwick, Ld. Ch., 1743),
9 Mod. 459;

Stewart v. Hook, 118 Ga. 445, 45 S.E. 369,
63 L.R.A. 255;

Chadwick v. Covell (1890), 151 Mass. 1900,

23 N.E. Rep. 1068.

The disclosure was to Hartley, and as the record clearly shows, Intervenors have at all times been prevented by the District Court from asserting their rights against Hartley. Accordingly, Intervenors have never asserted rights "as owners". Please see in this connection Intervenors' Brief in No. 17741 at pages 6-8.

In conclusion, with respect to Intervenors' reply to the du Pont Point I, du Pont has said nothing to disturb the fact that Intervenors have the right to intervene under the law of this case; that,as owners of the trade secret, they intervened to protect, they should have the right to assert their ownership rights against the one party to whom the secret has been disclosed in confidence and who seeks to disclose that secret to others in violation of its contractual obligation and as the receiver of confidential information; and that the right to protect a trade secret under FRCP 24(a)(3) is recognized by this Court.

II.

INTERVENORS' REPLY TO THE DU PONT CONTENTION:

"ASSUMING ARGUENDO THAT JURISDICTION OF THE DISTRICT COURT EXTENDS TO DETERMINATION OF THE SEPARATE AND INDEPENDENT CONTROVERSY FRAMED BY THE COMPLAINT IN INTERVENTION, THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN REFUSING TO ENJOIN DISCLOSURE BY HARTLEY.

"A. THE PRESENTATION OF THE TRUTH IS A PARAMOUNT CONSIDERATION TO PROTECTION OF A PROPRIETARY RIGHT."

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1. The contention that "The Presentation of the Truth Is a Paramount Consideration to Protection of a Proprietary Right" is a fine contention, one which would have appealed mightily to the ancient Greeks, but in the present case overlooks several very important facts. Among the foremost is the fact that the proprietary right to be protected here is the right of a third party, not the right of one of the parties engaged in the contentions as to what is and what is not truth. Another fact overlooked is that one of the truth seekers is bound by contract and by his obligations under a confidential disclosure not to say certain things in public for any reason, whether it be to establish truth or to satisfy a personal vindictive urge.

If du Pont wishes to argue in terms of ultimate good and philosophic concepts it should not lose sight of the concept of the sanctity of contracts. Hartley promised on its word of honor not to disclose Intervenors' secret. There was consideration for that

promise, it was good and binding. How does du Pont justify encouraging Hartley to break that promise simply to win an argument which it started with a third party?

Hartley is not obligated to establish "truth". It started the "argument" voluntarily. It can drop it voluntarily. It is not bound. It is bound, however, to recognize its binding contractual obligation not to disclose the trade secret.

2. Du Pont states:

" . . . if disclosure of the secrets is indispensable to that result, (determination of rights of litigants) then disclosure must be made. Coca-Cola Co. v. Joseph C. Wirthman Drug Co., 48 F. 2d 743; Grasselli Chemical Co. v. National Aniline & Chem. Co., 282 Fed. 379; Willson v. Superior Court, 66 Cal. App. 275, 225 Pac. 881."

(du Pont Brief, p. 12, first full paragraph, last six lines [parenthetical matter inserted]).

The cases cited by du Pont do not apply for in each the party seeking to protect the trade secret was one of the litigants bringing or defending the action.

3. Du Pont also makes the contention:

"Another striking dissimilarity between Krippendorf and the present case stems from du Pont's need to know the secret formulae in order properly to prepare its defense to Hartley's claim."

(du Pont Brief, p. 12, first full paragraph, lines 1-4).

Intervenors answered this in their main Brief at pages 34 and 35. The lower court stated that if Hartley did not disclose when ordered to do so du Pont would prevail. Hartley is presently ordered to disclose. If it fails to do so, in the absence of reversal of the lower court's order, du Pont would, of necessity, receive judgment upon the dismissal of the Hartley complaint. How, then, can it be contended by du Pont that it needs the formula? Du Pont will be the winner if it doesn't receive it. It could still lose if it does receive it.

4. Du Pont contends that Intervenors:

" . . . Having sought and presumably obtained a commercial advantage by revealing the secrets to Hartley under license, intervenors have not insulated themselves from that hazard. So to hold would be to frustrate public policy requiring disclosure where necessary in order to enable a defendant to prepare his defense."

(du Pont Brief, p. 13, lines 3-7).

This contention entirely ignores two facts, to wit:

1. Disclosure was made to Hartley in confidence; and

2. Disclosure made to Hartley was under a contract which bound Hartley not to disclose to others.

Du Pont in effect is here contending that the contract licensing Hartley has no binding effect, and that Hartley can obtain the right to breach that contract unilaterally by bringing an action

against a third party, du Pont.

Du Pont here asserts a "public policy requiring disclosure where necessary in order to enable a defendant to prepare his defense". In all honesty it does appear that du Pont's zeal in urging the primacy of "truth" and now of a "public policy" is most exercised when du Pont would be benefited by the acceptance of its views.

What about "public policy" requiring parties to a valid contract to recognize and honor their contractual obligations? What about a "public policy" requiring one who has received a confidential disclosure to honor the confidence? Du Pont remains silent on these but clearly they are present and in this case more controlling than any alleged "public policy" relating to a disclosure which du Pont doesn't need to win and which Hartley can make only by breaching its contractual obligations.

The du Pont position lacks some merit.

5. Du Pont also contends:

"That the secrets sought to be protected are the property of persons not parties to the action is not a proper consideration affecting the requirement of disclosure. Johnson Steel Street-Rail Co. vs. North Branch Steel Co., 48 Fed. 191, 192-93."

(du Pont Brief, p. 13, lines 9-13).

Johnson Steel was an early case in 1891 and related to a subpoena duces tecum served upon a witness not a party to the

action. The case did not relate to the intervention by the owner of a valuable secret. The most interesting thing here is that du Pont found it necessary to rely upon a case decided in 1891 and could find nothing closer.

6. Du Pont contends that even though it be assumed the District Court has the power to determine Intervenors' rights:

> the "refusal of the injunction sought by intervenors did not constitute error."

The refusal of injunctive relief to Intervenors by the District Court premised upon position of the District Court that it had no jurisdiction makes good sense. The right of Intervenors to an injunction in the event the District Court is in error and it does in fact have jurisdiction of Intervenors' complaint has never been considered by the District Court.

Having determined it had no jurisdiction the District Court was in no position to rule upon the rights Intervenors would have if it had jurisdiction. No consideration nor weight was given to Intervenors' ownership rights. How could it be when the Court refused jurisdiction of the pleading in which they were asserted.

If this Court holds that the District Court has jurisdiction of Intervenors' complaint then their right to a preliminary injunction must be reevaluated in the light of their ownership rights not heretofore weighed.

INTERVENORS' REPLY TO DU PONT ARGUMENT II B:

"B. UNDER THE CONDITIONS OF SAFEGUARD INCORPORATED IN THE ORDER OF LIMITED DISCLOSURE, NO GENERAL PUBLICATION OF THE SECRETS WILL BE MADE AND NO IRREPARABLE INJURY DONE TO INTERVENORS."

---

1. Reference is respectfully made to Intervenors' Brief in Appeal No. 17741, pages 48-52.

Either du Pont is to be given the formula to use for its own defense as needed in a jury trial or the disclosure cannot be justified upon any ground. Accordingly, it must be assumed that disclosure, having been once made to du Pont, will be used as needed for its defense. The matter of irreparable injury is discussed in Intervenors' Brief in No. 17741 at the point identified above.

It is something less than reasonable to assume that du Pont is to be given the opportunity to use the secret to prepare for its defense and then, at the last minute, when it is about to present its defense to the open court, to the jury, to the record, and to all present, suddenly the court will say: You cannot do this.

The practical fact is that the court would order the evidence admitted and before counsel for Intervenors could get out of the courtroom, much less file a paper with the Court of Appeals seeking relief, the damage would be done.

Unless property rights can be freely destroyed, contractual rights freely abrogated, and a litigant denied his day in court to

assert his rights, the order of the District Court ordering disclosure while denying to Intervenors an opportunity to be heard cannot, in the honest opinion of the Intervenors, be justified.

2. Du Pont makes a self-righteous assertion:

> "No issue can seriously be tendered that du Pont will misuse the information disclosed pursuant to the order, either by a publication in contempt of the provisions of that very order or by the competitive manufacture of ballpen ink."
>
> (du Pont Brief, p. 15, paragraph 1, last five lines).

The "du Pont" referred to is not an individual but a great many individuals who over a period of years will go in many directions and have many contacts under many diverse circumstances none of which, in all probability, can be traced or checked upon by the Intervenors.

It is extremely doubtful that du Pont as a corporation would knowingly violate the order of the Court, but that the individuals involved would not from time to time use the information obtained in diverse ways which might never be discovered is stating as a fact something that no one can know.

The point is that Intervenors are seeking to protect a trade secret worth one million dollars. Neither Du Pont nor anyone else is in any position to ask or to demand that they, the Intervenors, give up a Constitutional right to protect their property upon a speculative concept that "x" number of unknown individuals will

over an extended period of time diligently protect the secret once disclosed.

3. Du Pont makes the contention:

"That general publication of the secrets will follow their disclosure under the safeguards provided is apprehension on the part of intervenors, not fact."

(du Pont Brief, p. 15, paragraph 2, lines 7-9).

As stated above, if du Pont is not to be given the opportunity to use the trade secret in the defense of its case, once the secret is given to it, then disclosure cannot be justified in the first place. It is only upon the assumption and presumption that du Pont will be enabled to use the secret as necessary that there can be any possible logical grounds for disclosing to du Pont.

CONCLUSIONS

Du Pont, by its Answering Brief, has failed to establish a single sound reason justifying denial to Intervenors of their day in court to assert their property rights; or justifying the disclosure of their trade secret in the absence of their consent; or supporting any contention that they are not entitled under FRCP 24(a)(3) to assert their rights as owners; or justifying the denial to Intervenors of their property rights under the United States and California Constitutions.

Dated: January 17, 1963.

Respectfully submitted,

/s/ W. D. Sellers

WILLIAM DOUGLAS SELLERS

Attorney for Formulabs, Incorporated, Clarence Schreur and Gordon S. Lacy.

CERTIFICATE

I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ W. D. Sellers

WILLIAM DOUGLAS SELLERS